

Notes to the Accounts

for the year ended 31 December 2006

4. Retirement benefit obligations (continued)

The amounts under IAS 19 that have been recognised in the statement of recognised income and expense ('SORIE') are set out below:

	2006		2005	
	£mn	%	£mn	%
Actual return less expected return on Scheme assets	14.4		34.8	
% of year end market value of assets		2.8		7.2
Experience gains and losses arising on Scheme liabilities	(1.0)		10.1	
% of year end present value of Scheme liabilities		(0.2)		2.1
Changes in assumptions underlying the present value of the Scheme liabilities	(7.8)		(39.4)	
% of year end present value of Scheme liabilities		(1.6)		(8.4)
Actuarial gains recognised in SORIE	5.6		5.5	
% of year end present value of Scheme liabilities		(1.1)		(1.2)

The sensitivity of the 2006 pension liabilities to changes in assumptions are as follows:

Assumption	Assumption change	Estimated reduction in pension liabilities £mn	Estimated reduction in pension liabilities %
Discount rate	Increase by 0.5% per annum	47.0	9.4
Expected rate of salary increases	Reduce by 0.5% per annum	3.6	0.7
Expected rate of pension increases	Reduce by 0.5% per annum	29.4	5.9
Life expectancy	Reduce by one year	16.3	3.3

Membership details as at 31 December 2006 are as follows:

Active workers	357
Total pensionable salary roll	£24.6 million per annum
Average age	42
Average service in plan	10.0 years
Number of deferred members	1,463
Total deferred pensions (at date of leaving scheme)	£9.2 million per annum
Average age	45
Number of pensioners	575
Total pensions in payment	£12.4 million per annum

The Group expects to make contributions totalling approximately £19.2 million to the Scheme in 2007. Contributions to the Scheme are made on a monthly basis.

5. Directors

(a) Total emoluments

The aggregate emoluments of the Directors amounted to £7.4 million (2005: £6.1 million). The aggregate of employer contributions to defined contribution arrangements in respect of the Directors during the year was £0.2 million (2005: £0.1 million). Retirement benefits accrued to three (2005: four) Directors under defined contribution arrangements and to three (2005: three) Directors under the defined benefit section of the UK Scheme. The emoluments of the highest paid Director during the year amounted to £2.5 million (2005: £1.8 million). There were 156,185 (2005: nil) market value share options exercised during 2006 resulting in a gain of £0.5 million (2005: £nil). There were 64,826 (2005: nil) nil cost options exercised during 2006, resulting in a gain of £0.7 million (2005: £nil). There are no severance payments included in the emoluments for 2006 (2005: £nil). Further details relating to emoluments paid to Directors are given in the remuneration report on pages 26 to 33.

(b) Rights to deferred cash and shares

Details of Directors' rights to deferred cash and shares are provided in the remuneration report on pages 31 and 32.

(c) Directors' loans

Under the Companies Act 1985, Schroder & Co. Limited is permitted as a banking company to make loans to Directors of the Company. There were no loans outstanding at 31 December 2006 (2005: nil) to Directors which need to be disclosed pursuant to the Act.

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6. Tax expense

	2006 £mn	2005 £mn
(a) Analysis of charge in the year		
Current tax:		
UK corporation tax on profits of the year	38.7	29.6
Double taxation relief	(20.8)	(17.4)
	17.9	12.2
Adjustments in respect of prior years	(6.2)	(0.1)
	11.7	12.1
Foreign tax – current	47.1	39.4
Foreign tax – adjustments in respect of prior years	(0.8)	0.7
Total current tax	58.0	52.2
Deferred tax – origination and reversal of temporary differences	6.5	3.9
Adjustments in respect of prior years	3.6	1.3
Total tax charge for the year	68.1	57.4

	2006 £mn	2005 £mn
(b) Analysis of credit to equity		
Current income tax on Equity Compensation Plan and share option awards	6.1	–
Deferred tax on Equity Compensation Plan and share option awards – current year	2.5	8.4
Deferred tax on Equity Compensation Plan and share option awards – prior year	(0.3)	–
Deferred tax on actuarial gains and losses on defined benefit pension schemes	(1.7)	(1.6)
Tax credit reported in equity	6.6	6.8

(c) Factors affecting tax charge for the year

The tax charge for the year is lower (2005: lower) than the UK standard rate of corporation tax (30 per cent.). The differences are explained below:

	2006 £mn	2005 £mn
Profit before tax	290.0	250.7
Profit before tax multiplied by corporation tax at the UK standard rate of 30% (2005: 30%)	87.0	75.2
Effects of:		
Impact of profits/losses arising in jurisdictions with higher tax rates	7.0	3.1
Impact of profits/losses arising in jurisdictions with lower tax rates	(24.6)	(22.9)
Non taxable income net of disallowable expenses	(4.7)	(5.5)
Movement in unrecognised deferred tax – current year	2.9	2.9
UK tax on profits of overseas entities after double taxation relief	4.0	2.7
Prior year adjustments:		
UK prior year – current	(6.3)	(0.1)
Foreign tax prior year – current	(0.8)	0.7
Deferred tax prior year	3.6	1.3
Total tax charge for the year	68.1	57.4

7. Dividends

	2006		2005	
	£mn	Pence per share	£mn	Pence per share
Declared and paid in year:				
Final dividend paid	42.0	14.5	39.2	13.5
Interim dividend paid	21.4	7.5	20.3	7.0
	63.4	22.0	59.5	20.5
Proposed for approval at AGM:				
Final dividend for 2006	49.7	17.5		

Dividends of £2.2 million (2005: £1.5 million) on shares held by the employee trusts have been waived.

Notes to the Accounts

for the year ended 31 December 2006

8. Earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year attributable to equity holders of the parent of £221.3 million (2005: £191.3 million) by the weighted average number of shares in issue during the year, less the weighted average number of own shares.

Diluted earnings per share is calculated as for basic earnings per share with a further adjustment to the weighted average number of shares to reflect the effects of all dilutive potential shares.

There is no difference between the profit for the financial year attributable to equity holders of the parent used in the basic and diluted earnings per share calculations.

Reconciliation of the figures used in calculating basic and diluted earnings per share:

	2006 Number	2005 Number
Weighted average number of shares used in calculation of basic earnings per share	287,844,376	291,207,587
Effect of dilutive potential shares – share options	3,251,161	2,715,583
Effect of dilutive potential shares – contingently issuable shares	944,844	-
Weighted average number of shares used in calculation of diluted earnings per share	292,040,381	293,923,170

There have been no material transactions involving shares or potential shares since the reporting date and before the completion of these financial statements.

9. Goodwill

	2006 £mn	2005 £mn
At 1 January	24.6	24.5
Exchange translation adjustments	(2.9)	0.1
Additions	43.6	-
At 31 December	65.3	24.6

The increase in goodwill during the year is attributable to the acquisition of NewFinance Capital Holdings Limited and its subsidiaries on 3 May 2006 (see note 38).

Goodwill acquired in a business combination is allocated to the cash generating units ('CGUs') that are expected to benefit from that business combination. The highest acceptable level of CGU that can be used to determine impairment is segment level.

The carrying amount of goodwill has been allocated as follows:

	2006 £mn	2005 £mn
Asset Management	60.3	19.6
Private Banking	5.0	5.0
	65.3	24.6

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions on which management have based their five-year cash flow projections to arrive at the value-in-use are those regarding the market growth rates (based on the Group's view of anticipated future market movements), a pre-tax discount rate of 11.0 per cent., expected fund flows (based on the aggregation of local expectations of country heads worldwide) and expected changes to margins (based on an analysis of the current fee structure flexed to take into account expected changes in product mix and the proportion of rebates payable to external distributors).